

# ***U.S. Embassy - Skopje***

## **ECON NEWSLETTER 07/2005**

### **DECENTRALISATION PROCESS BEGINS**

The process of decentralization i.e devolving part of the authorizations of the central government to the units of local self-government in Macedonia started on July 1. According to the detailed plan for transfer of competencies and resources, 489 institutions and close to 27,000 employees, 400,000 square meters of buildings and other facilities and 2.5 million square meters of yard area should be transferred from central to local government. There will also be transfer of employees from education, culture, social care and fire fighting units.

The total debt of the municipalities amounts to EUR 42 million and the central budget will only repay very limited portion of that. Ministry of Local Self-Government says that the first step is the fiscal decentralization for which all preconditions are fulfilled.

### **JOINT STATEMENT BY EU, USA, OSCE, NATO AMBASSADORS ON DECENTRALIZATION**

"This is an important day for the country because it is the start of a process leading towards more responsive local government, strengthened grassroots democracy, enhanced citizens' participation in government, and - in time - improved provision of communal services", reads the joint statement by EU, USA, NATO and OSCE ambassadors to Macedonia, dedicated to the first stage of decentralization, which formally began on July 1.

EU Special Representative Michael Sahlin, Head of the Delegation of the European Commission Ambassador Donato Chiarini, United States Chargé d'Affaires Paul Wohlers, Head of the OSCE Spillover Monitoring Mission to Skopje Ambassador Carlos Pais, and NATO Senior Military Representative Brigadier General Dennis Blease stated that they appreciate the work on decentralization done by the government, the parliament and the association of local governments, ZELS. However, they say it should be clear to all that much work remains to be done.

"July 1 is only the beginning of the decentralization process; full implementation will require sustained efforts extending well beyond a year. The transfer of competencies is a complicated reform of public administration involving several different institutions. Some confusion and uncertainty should be expected, especially in the beginning", reads the statement. Therefore, the ambassadors say, "it is important that the government make decisions in a transparent manner and clearly inform the municipalities of their rights and obligations under the decentralization process". "We recommend that outstanding financial questions, including the handling of municipal debts, are resolved, and that the government ensures that citizens and municipalities are thoroughly informed of the requirements of decentralization", reads the joint statement.

Furthermore, they urge that the government ensures effective coordination between ministries, as well as with ZELS. The ambassadors stress that municipal governments must work with increased vigor to clearly understand and systematically apply the legal framework for decentralization and also openly communicate with the citizens. "This is a period of transformation for this country, and not just regarding decentralization. A willingness to work hard, embrace new ideas, and meet new challenges is fundamental for a better future for all of the country's citizens, as well as for strengthening ties with the Euro-Atlantic family", concludes the joint statement.

#### **BUDGET WILL COVER PART OF MUNICIPAL DEBTS**

The central budget will cover part of the municipal expropriation costs, while the Ministry of Finance will initiate a donors' conference of municipal trustees and creditors for writing off interest rates. Furthermore, municipalities can reprogram rest of the debt in a period of 3-7 years", Minister of Finance Nikola Popovski said on July 1. According to him, the Ministry would try to talk with all creditors, which should take up a lot of time. "That is why we created a process in the treasury system, so that financing of decentralized functions is not jeopardized by the municipal debts", Popovski added.

#### **CARDS ANNUAL ACTION PROGRAMME 2005 SIGNED**

On July 5, Macedonian Vice Prime Minister Radmila Sekerinska and Head of the European Commission's Delegation to Macedonia, Ambassador Donato Chiarini signed the 2005 CARDS Program, amounting to EUR 34.5

million. The majority of funds are provided for reforms in judiciary, police and public administration. The largest tranche will be spent on building up institutions and implementing the rule of law. "In the area of public administration reform, priority for 2005 is the support of decentralization process, meaning that EUR 6.7 million will be provided for support of local projects proposed by local authorities", Sekerinska said. She also mentioned that in the area of democratic stabilization, support is provided for the combat against money laundering and organized crime, as well as support for decentralization process and development of local infrastructure.

"In the area of economic and social development (EUR 10.6 million), money is allocated for improvement of investment climate, SMEs development, infrastructure, environment protection and education and employment projects", Sekerinska said. According to her, part of the CARDS Program funds would be spent on reforms in statistics and telecommunications, as well as support of customs and taxation services. Ambassador Chiarini said that most of this year's finances within the CARDS program were provided for institutional and capacity building.

#### **WORLD BANK PRESENTS ASSESSMENTS ON MACEDONIA'S LEGAL SYSTEM**

At a press conference on July 5 in Skopje, the World Bank officials David Bernstein and Gerhard Botha presented the Assessment on the legal and judicial system, including the obstacles or incentives for improving the business climate. "We registered a huge number of unresolved court cases, which is probably due to the Law on Legal Procedures. A lot of things have to be done so that courts begin to use information technology", Bernstein said.

According to him, the Macedonian system did not have a legal base for use of arbitration as an alternative of courts, along with the necessity for specialized judges and professional bankruptcy managers. Furthermore, Bernstein stated that his team reviewed shareholders' rights, which the GOM should review with much attention. In addition, he greeted the GOM's strategy for judicial reforms, because of its comprehensiveness and wide consensus, as well as the progress of its application.

#### **MACEDONIA'S FDI RATE LOWEST IN SEE**

Macedonia, along with Albania and Moldova, is at the tail-end in the South Eastern Europe (SEE) in regard to foreign direct investments (FDI). Last year only US\$ 151 million came in the country, according to the data from the Agency for Foreign Investments (AFI).

AFI has been working for six months on concrete projects for granting information to all of those who wish to invest in Macedonia, AFI Director Viktor Delov said at the July 11 conference on foreign investments and local-self-government, which was organized in cooperation with the UNDP, GTZ and weekly magazine "Kapital". "We should present what Macedonia is offering to all potential investors, but we cannot do it alone. It requires the cooperation of all economic institutions. This is the only way to attract more foreign investments," Delov said.

FDI are crucial for economic growth, Economy Minister Fatmir Besimi said, adding that stable business climate and developed private sector are necessary for larger FDI inflow. "The local democracy will succeed only when municipalities turn into promoters of economic development," Minister of local self-government Rizvan Sulejmani said. Within the conference, AFI has signed cooperation agreements with the Association of Units of Local Self-Government and the Chamber of Commerce.

#### **GOM PLANS 4 PERCENT ECONOMIC GROWTH, LESS UNEMPLOYED BY THE END OF 2006**

Four percent GDP growth and decrease in unemployed persons by 60,000 are the concrete results expected from the implementation of the Action Plan of the GOM's Economic Program, which was presented on July 12. "Realization of the Action Plan should be completed by the end of 2006, but exact simulations haven't been carried out as yet", GOM's Spokesman Saso Colakovski said. The Action Plan encompasses 38 concrete measures with precise timelines for realization. Its basic objectives are higher economic growth, opening new jobs, improving the business climate, reducing deficits in the trade and the BOP balance, restructuring the enterprise and the financial sector, supporting SMEs and export-oriented companies, as well as attracting foreign investors.

#### **ECONOMY RECOVERING STRONGLY, POPOVSKI SAYS**

Setting of fiscal policy objectives for 2005 remained unchanged with the budget rebalance aimed at maintaining

macroeconomic stability, stabilizing the public debt level and relaxing the monetary policy, Minister of Finance Nikola Popovski said on July 25, explaining the changes and supplements to the annual budget before the members of the Parliament.

"Stable budget is adopted in accordance with the defined macroeconomic framework and expected developments in the economy, based on relatively successful 2004 with a real GDP growth of 2.9 percent. Intensified positive trends are expected during this year," Popovski said. The policy is created in such a way to provide real growth of 3.8 percent, deficit in the general budget of 0.9 percent and average inflation of 1.5 percent for this year.

Popovski said that the economic developments in the first six months of 2005 are excellent basis for full realization of the projections by the end of 2005. He informed that according to the latest data from the State Statistical Office, the industry increased by 9.3 percent in the first six months of this year. "We expect industry to increase more than the projected 6 percent on an annual level," Popovski said.

He said that the number of unemployed persons significantly decreased in the first six months and currently is 371,746, which is by 22,541 persons less than the end of 2004. Positive developments are registered in the external sector where the export of goods in the first 5 months increased by 37.1 percent compared to the same period of last year and the import grew by 20.3 percent. Popovski said that the low inflation rate, price stability and stable exchange rate still remain the main characteristics of the macroeconomic policy.

Popovski said that the main reasons for the proposed budget rebalance are the surplus of revenues in the central budget from the dividend of the Telecom and the better tax collection. With the changes the central budget deficit will be halved to about 0.6 percent of GDP. The rebalance foresees coverage of last years' loss of the National Bank of the Republic of Macedonia amounting to US\$ 25 million and US\$ 9.7 million will be additionally transferred to refill the mandatory reserves of the National bank of the Republic of Macedonia. The rest of the excess revenues will be spent mainly on infrastructure projects.

**MACEDONIA HAS SOLID PERSPECTIVES FOR ECONOMIC GROWTH, IMF EXECUTIVE SAYS**

Macedonia's economic perspectives are favorable and now is the time for the country to apply good policies in order to reap laurels of previous efforts, the International Monetary Fund (IMF) Chief Executive for Macedonia, Jeroen Cremers, said on July 27 at a press conference. He has paid a several day visit to Macedonia to personally get new information on the economic and political developments in the country. His assessment is based on the macroeconomic stability, low deficit and low inflation and the fact that many loss-making companies have been reconstructed or closed for the last several years. In this regard Macedonia is ahead of many other countries, Cremers said, adding that there are also signs of poverty reduction.

"An achievement of more serious results requires higher growth by maintaining the macroeconomic stability, which is hindered by the poor quality of the private sector," he said. "Therefore, the IMF program will focus on improving the private sector quality, including the rule of law, and judicial system, which are main prerequisites for better business climate, tax collection, more flexible law on labor force protection," Cremers added. Macedonia's aspirations to join the European Union and NATO instill additional trust in the country's ability for serious economic performances, he said. Macedonia's three-year arrangement with the IMF will be presented to the Board of Directors on August 31. Expectations are that this ambitious program will result in an annual economic growth of 4-5 percent.